EXHIBIT K

From: Levinson, Marc A.
Sent: Thursday, September 28, 2017 3:13 PM
To: Mandy Jeffcoach (mandy.jeffcoach@mccormickbarstow.com) <mandy.jeffcoach@mccormickbarstow.com>; 'Tim Thompson' <Tim.Thompson@mccormickbarstow.com>
Cc: Grossman, Marshall <mgrossman@orrick.com>
Subject: Tulare Local Healthcare District -- Credit rating agency official ratings

Tim and Mandy,

Here's the sixth email covering District financial information. As noted in the five previous emails, HCCA reserves the right to disagree with the breadth, timing and true purpose of your September 11, 2017 document requests. Given the flurry of litigation since our September 5, 2017 meeting, HCCA has not only been operating the Hospital but it has had to engage in shortened notice litigation, most of which was precipitated by your firm and its claimed clients.

This sixth installment includes Fitch and Moody's ratings reports, opinions and releases. Specifically, attached are:

- Fitch releases of (i) August 28, 2014; (ii) August 27, 2015; (iii) August 23, 2016; (iv) February 22, 2017; (v) September 6, 2017; and (vi) September 25, 2017 .

- Moody's releases of (i) October 25, 2016; and (ii) October 28, 2015.

While the attached speak for themselves, I note that when HCCA came on board on January 10, 2014, the District's credit ratings were in the dumps, it was losing money monthly, and had a "going concern" qualification on its most recent audit. In addition, the revenue bond trustee claimed that the revenue bonds were in default. By the time HCCA completed its third month on the job (April 2014), the District had a net positive margin (which continued for nearly 36 consecutive months), the "going concern" qualification had been removed from the subsequent audit, and the revenue bonds were in good standing. The District's net margin on the first full fiscal year was nearly five times the national average for hospitals and higher than it had been at the District for at least the preceding 12 years (and likely since the District's inception in 1951).

These are public documents, accessible on line to anyone with a laptop, pad or iPhone.

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Tagging Info

Fitch Affirms Tulare Local Health Care District (CA) Revs at 'B'; Removes Rating Watch Negative

Ratings Endorsement Policy

28 Aug 2014 1:40 PM (EDT)

Fitch Ratings-New York-28 August 2014: Fitch Ratings has affirmed the 'B' rating on $15,230,000 series 2007 fixed rate bonds issued by the Tulare Local Health Care District d/b/a Tulare Regional Medical Center (TRMC).

The Rating Watch Negative has been removed and the Rating Outlook is Stable.

SECURITY

Debt payments are secured by a pledge of the gross revenues of Tulare Local Health Care District. A fully funded debt service reserve fund provides additional security for bondholders.

KEY RATING DRIVERS

CONSTRUCTION PLANS DEVELOPING: The removal from Rating Watch Negative reflects growing clarity and progress on construction plans achieved over the last six months. A settlement was reached with the previous contractor in July 2014. A new team has been put in place under HealthCare Conglomerate Associates' (HCCA) leadership, and a completion plan has been established. Currently, TRMC is evaluating various funding options, but no new debt is expected at the TRMC level.

SIGNS OF TURNAROUND: The Stable Outlook reflects the dramatic turnaround in operating and financial performance since Fitch's last review in February 2014. TRMC posted an operating loss of $3.9 million through the six months ended Dec. 31, 2013, but a positive operating income of $1.6 million in the second half of the year. Improved operating margin of negative 3.3% at fiscal year ended (FYE) June 30, 2014 (unaudited interim results) was attributable to revenue enhancement as well as expense reduction initiatives. Fitch believes the positive trend over the last few months indicates performance improvement plans taking hold and signal recovery.

LIQUIDITY REMAINS WEAK: TRMC's liquidity position remains very low, albeit slightly improved from one year ago. Unrestricted cash and investments were $10.4 million at FYE 2014 was over 20% increased year-over-year, and equated to 57.3 days cash on hand, 4.1x cushion ratio, and 57% cash to debt.

RATING SENSITIVITIES

DISPUTE WITH TRUSTEE: By letter dated Aug. 4, 2014, the US Bank, as Trustee, issued a notice to TRMC asserting the occurrence of various defaults and Events of Default (EoD) under the Indenture, including failure to achieve the required long term debt service coverage ratio for fiscal years 2012 and 2014. TRMC has denied the existence of any defaults or EoD and the Trustee has withdrawn the Notice of Default by letter dated Aug 8. At this time, TRMC has made all required payments under the indenture. Fitch expects that this matter will be resolved without any negative impact to bondholders or the credit profile of TRMC.

CLARITY ON PROJECT FUNDING: Considerable amount of uncertainty around the timing and funding sources remain, although meaningful progress has been made over the last six months. Fitch believes that the hospital can continue to operate without completion of the project over the near term. Further, additional debt funding secured by the revenues of the hospital is not expected to be pursued over the near term.

CREDIT PROFILE

Tulare Local Health Care District, d/b/a Tulare Regional Medical Center owns and operates a 112-bed hospital in the city of Tulare, California. Total operating revenue in FYE June 30, 2014 was $68.6 million (exclusive of tax revenues related to GO bonds debt service). Since January 2014, TRMC has been managed by HealthCare Conglomerate Associates under a management agreement.

Construction Plans Developing

TRMC has a construction project in progress featuring a 24-bed emergency department, a new diagnostic department, a 16-bed obstetric unit, four surgery suites, and 27 new private patient rooms meeting seismic requirements. This new expansion tower was initially slated to open October 2012, but suffered disruptions due to concrete delamination issues and ensuing conflicts with the contractors.

Over the last six months, TRMC was able to reach a settlement agreement with the previous contractors and put a makeup schedule and budget in place. The completion of the project is now pending a funding source, with several options currently under evaluation. Fitch assumes that the ultimate decision will not have a material impact on TRMC's solvency, and will evaluate any impact of funding sources after plans are finalized and disclosed.

Signs of Turnaround

TRMC posted a loss of $2.3 million (negative 3.3% operating margin) in fiscal 2014, which is significantly improved from a $3.9 million loss (negative 12% operating margin) through the six months ended Dec. 31, 2013. Similarly, operating EBITDA margin improved from a negative 3.8% to a positive 4.2%. Management's initial goal was to breakeven in calendar year 2014. Given the $1.6 million operating income generated in the six months ended June 30, 2014, Fitch believes TRMC is on track to meet its targets.

Under a new leadership team from HCCA, the performance improvement plan largely focuses on putting sustainable operating structures in place, with a two-pronged approach at enhancing revenues and reducing expenditures. With inpatient volume continued to weaken, fiscal 2014 marked the first year of growth in outpatient surgeries and emergency department visits in over three years. Fitch also believes MediCal expansion will also be beneficial for TRMC in generating additional outpatient traffic.

Weak Liquidity

Liquidity showed modest growth in fiscal 2014, following four years of rapid declines driven by IT investments, other capital spending, and negative cash flow. Unrestricted cash and investments totaled $10.4 million at June 30, 2014 compared to $8.7 million at FYE 2013 and $24.4 million at FYE 2010. Days cash on hand of 57 days, cushion ratio of 4.1x, and cash to debt of 57% remain weak compared to Fitch's median for below investment-grade ratings. Continued expense control and improvement in revenues should improve overall cash flow and slowly rebuild the balance sheet. While not expected, demand on unrestricted liquidity to support operations or fund the construction project would be viewed negatively.

Fitch also notes a debt service reserve account is in place for the series 2007 bonds, with approximately $1.3 million held by a Trustee.

Weak Debt Metrics Despite Moderate Debt Burden

At June 30, 2014, Tulare's revenue supported debt burden totaled $18.3 million, consisting of $15.2 million in series 2007 bonds and $3.1 million in capital leases. The debt is all fixed rate and produces a maximum annual debt service (MADS) of $2.5 million, which declines to $1.3 million in fiscal 2017 following the final payment on the capital lease.

Debt burden is relatively low, as measured by debt to capitalization of 28%. However, due to poor cash flow, MADS coverage was 1.3x in fiscal 2013 compared to 1.4x in 2013 and a negative 2.1x in 2012, compared to the average of 4x in 2009-2011. TRMC violated its debt service covenant in 2012, which resulted in a consultant-call in. The debt service covenant was met in fiscal 2013, and based on discussions with management and review of most recent financial statements, Fitch anticipates TRMC to meet its debt service covenant in 2014.

Fitch believes TRMC has sufficient resources to pay its obligations over the next year.

Not included in Fitch's calculation of TRMC's long-term debt are $85 million in general obligation (GO) bonds, which are not rated by Fitch. Since TRMC's GO debt is secured by a special assessment on property taxes in the district, Fitch's calculation of financial ratios excludes the GO debt and related receipts.

Trustee Dispute

On Aug. 4, 2014, US Bank, as Trustee, issued a written notice to the district asserting the occurrence of various defaults and EoD under the Indenture, including failure to achieve the required long term debt service coverage ratio for fiscal years 2012 and 2014 and failing to calculate correctly the long term debt service coverage ratio for fiscal year 2013. The district has disputed the existence of any defaults or an EoD under the Indenture and indicated that a forbearance would not be required. On Aug. 8, the Trustee withdrew its Notice of Default but also has reserved its rights under the Indenture pending further review.

TRMC is making the required monthly payments of gross revenues to the Trustee, and the Bond Reserve Account of the Revenue Fund is fully funded in the amount of $1.4 million. TRMC has pledged to cooperate with the Trustee in the Trustee's review of the matters raised in the Notice of Default and Response. Fitch expects that this matter will be resolved without any negative impact to bondholders or the credit profile of TRMC.

DISCLOSURE

TRMC covenants to disclose annual financial statements within six months of year-end and quarterly unaudited financial statements within 30 days through the MSRB EMMA website.

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Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', June 16, 2014;
--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria', May 30, 2014.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
U.S. Nonprofit Hospitals and Health Systems Rating Criteria

Additional Disclosure
Solicitation Status

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Fitch Upgrades Tulare Local Health Care District (CA) Revs to 'BB-'; Outlook Stable

Fitch Ratings-New York-27 August 2015: Fitch Ratings has upgraded the rating on $14,725,000 series 2007 fixed rate bonds issued by the Tulare Local Health Care District d/b/a Tulare Regional Medical Center (TRMC) to 'BB-' from 'B'.

The Rating Outlook is Stable.

SECURITY

Debt payments are secured by a pledge of the gross revenues of Tulare Local Health Care District. A fully funded debt service reserve fund provides additional security for bondholders.

KEY RATING DRIVERS

STABILIZATION ACHIEVED: The upgrade to 'BB-' from 'B' reflects sustained evidence of operational and financial turnaround and stabilization. Following three years of large operating losses, TRMC posted positive monthly operating income since April 2014. Operating margin of 10.6% in fiscal 2015 (unaudited interim results; June 30 year-end) was supported by volume growth, improved payor mix, enhanced revenues, and expense control, the benefits of which are likely to be ongoing.

PROGRESS ON CONSTRUCTION PLANS: The Stable Outlook reflects Fitch's expectation that long-term financing will be secured to complete TRMC's current tower construction project. The hospital district board recently voted to have a $55 million public financing measure go to voters within the hospital district. Should the transaction be approved, TRMC should be able to complete its tower project without relying on the hospital's revenue stream. Also, progress has been made to the tower construction over the last year despite limited funding sources, and the building is now fully enclosed and sealed.

VERY HIGH GOVERNMENTAL PAYOR EXPOSURE: Medicare and MediCal accounted for 77.5% of gross revenues in 2015, nearly a 10% increase in just two years due to MediCal expansion. Supplemental funding receipts are also growing, and totaled $8.8 million in 2014 compared to $5.2 million in 2013. A total of $11.3 million is estimated for 2015 as management continues to leverage various available intergovernmental and supplemental funding programs. While supplemental funding

dollars are expected to diminish nationally over the next few years, Fitch believes the immediate impact from participating in these programs is distinctly positive for TRMC.

IMPROVING LIQUIDITY: TRMC's cash and investments grew 70% over the last year, supported by stronger profitability and cash flows. Liquidity metrics of 97.3 days cash on hand, 6.1x cushion ratio, and 90.6% cash-to-debt are consistent with the 'BB-' rating.

RATING SENSITIVITIES

RESOLUTION OF LONG-TERM PROJECT FUNDING: Changes in the Tulare Regional Medical Center's rating will likely be driven by the resolution of its long-term funding requirements. Approval of the proposed public funding necessary to complete its tower construction project could lead to positive rating action. The effect of alternative outside funding arrangements would be evaluated, and TRMC's inability to address the uncertainties related to project funding sources over the next 1-2 years could lead to negative rating pressure.

OPERATIONAL STABILITY EXPECTED: In the meantime, Fitch expects TRMC to sustain its operational and financial improvements, and continue generating sufficient cash flows to produce satisfactory debt service coverage ratios. While not expected, reversal of the current positive trend would lead to negative rating pressure.

CREDIT PROFILE
Tulare Local Health Care District, d/b/a Tulare Regional Medical Center owns and operates a 112-bed hospital in the city of Tulare, California. Total operating revenue in FYE June 30, 2015 (unaudited interim results) was $80 million (exclusive of tax revenues related to GO bonds debt service). Since January 2014, TRMC has been managed by HealthCare Conglomerate Associates (HCCA). The current management agreement runs until 2029 with possible extensions.

Stabilizing Operational and Financial Performance
Under HCCA's leadership, operating and financial performance improved dramatically over the last 18 months. Since April 2014, TRMC has posted positive monthly operating income. In fiscal 2015, operating income was $8.5 million (10.6% operating margin) compared to a loss of $2.2 million (negative 3.2% operating margin) in 2014 and a loss of $9.9 million in 2012 (negative 13% operating margin). Similarly, operating EBITDA margin recovered to a strong 16.9% in 2015 compared to 4.4% the prior year. Management attributes the turnaround to the integration of new leaders throughout the organization who have conducted meticulous review of operating efficiencies, supplemental revenue sources, and expense savings. The hospital workforce was completely privatized in November 2014, resulting in a staff reduction of approximately 10% and a resulting structure that allows for better staff management. Additionally, the expansion of MediCal has led to enhanced clinical volumes and a favorable shift in payor mix.
Now that operations have stabilized, management's goal is to leverage all available supplemental

funding programs in the state and rebuild/expand its community network. Management is budgeting an operating income of $7 million (8.5% operating margin) for fiscal 2016, which Fitch believes is achievable given sustainable financial improvements put in place and limited competition in the service area.

Construction Plans Progressing

TRMC has a construction project in progress featuring a 24-bed emergency department, a new diagnostic department, a 16-bed obstetric unit, four surgery suites, and 27 new private patient rooms meeting seismic requirements. This new expansion tower was initially slated to open October 2012, but suffered disruptions due to concrete delamination issues and ensuing conflicts with contractors.

Since HCCA assumed overseeing the project in early 2014, TRMC was able to complete the exterior framing of the building after reaching an agreement with the previous contractors and reviewing/renegotiating other existing contracts. The original general obligation (GO) bond funds were exhausted in fall 2014, and improvements have since then been funded with internal equity.

The hospital district board voted unanimously to have a $55 million public financing measure go to a vote by the residents of the hospital district. The vote is expected to take place early 2016. Fitch views this development favorably, as the public financing measure, if approved, would provide sufficient funding to complete the construction project without affecting TRMC's cash flows. Fitch believes the 'BB-' rating is supported by TRMC's current financial and operating profile without taking into account the impact of additional public funding sources, but also assumes that the tower projects will not require TRMC to fund the project using its internal cash and investments.

Improving Liquidity

Unrestricted cash and investments totaled $18 million at June 30, 2015, up from $10.6 million one year prior. The improvement is primarily attributable to improved operating cash flows and measured capital spending related to the tower project. Liquidity metrics of 97.3 days cash on hand, 6.1x cushion ratio, and 90.6% cash-to-debt are markedly improved from prior years, and are consistent with the 'BB-' rating.

The TRMC board has approved the implementation of Cerner electronic medical record system, which will essentially replace core applications with a single system and is expected to cost around $3.3 million. Capital spending outside of the tower project and IT is expected to be minimal. Also, Fitch recognizes the somewhat less predictable timing of supplemental funding receipts in California, but believes TRMC now has a sufficient cash balance to endure a degree of timing discrepancy.

DEBT PROFILE

At June 30, 2015, Tulare's revenue supported debt burden totaled $19.8 million, consisting of $14.7 million in series 2007 bonds and capital leases. The debt is all fixed rate and produces a maximum annual debt service (MADS) of $2.9 million, which declines to $1.3 million in fiscal 2017 following the final payment on the capital lease. Debt burden is relatively low, as measured by debt-to-capitalization of 25.8% in 2015. Supported by improved cash flows, MADS coverage was a strong 5.3x in fiscal 2015, up

from 1.2x in 2013 and 2014.

Not included in Fitch's calculation of TRMC's long-term debt are $85 million existing GO bonds, which are not rated by Fitch. Since TRMC's GO debt is separately secured by a special assessment on property taxes in the district, Fitch's calculation of financial ratios excludes the GO debt and related receipts.

DISCLOSURE

TRMC covenants to disclose annual financial statements within six months of year-end and quarterly unaudited financial statements within 30 days through the MSRB EMMA website.

Fitch notes that TRMC received an unmodified (clean) audit opinion in 2014, following two years of going-concern opinions. Additionally, TRMC is providing monthly financial statements to EMMA for a specified period of time. Current management has emphasized focus on better reporting practices and have provided consistent and timely disclosure since 2014, which is viewed positively.

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Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866807)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=990008)
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FitchRatings

FITCH PLACES TULARE LOCAL HEALTH CARE DISTRICT (CA) REVS ON RATING WATCH POSITIVE

Fitch Ratings-San Francisco-23 August 2016: Fitch Ratings has placed the following bonds issued by the Tulare Local Health Care District, CA (d/b/a Tulare Regional Medical Center, TRMC) on Rating Watch Positive:

--$14,725,000 series 2007 fixed rate bonds 'BB-'.

In addition, Fitch has assigned the district a 'BB-' Issuer Default Rating (IDR).

SECURITY

Debt payments are secured by a pledge of the gross revenues of Tulare Local Health Care District. A fully funded debt service reserve fund provides additional security for bondholders.

KEY RATING DRIVERS

BALLOT MEASURE PENDING: The Rating Watch Positive reflects the likelihood of upward rating movement pending the outcome of Measure I, a ballot measure to the residents of the hospital district to issue $55 million of general obligation bonds to finish its new building project. The ballots are due by Aug. 30, 2016, and management states that polling is favorable.

SUSTAINED STRONG OPERATING PERFORMANCE: TRMC has sustained the trend of strong operating performance since Fitch's last rating review in August 2015. Ongoing work by the management team in place since January 2014 has brought a financial turnaround, and double digit operating EBITDA margins are expected to continue. Operating EBITDA was 14.1% in fiscal 2016 and 16.6% in fiscal 2015 compared to 4.4% in fiscal 2014.

NEW BUILDING PROJECT: TRMC has been plagued by an unfinished construction project that was supposed to be completed in 2012 due to numerous construction issues and litigation with the contractor. After settling with the contractor, TRMC has spent its own funds to prepare the building for completion. The building could open as early as July 2018 pending the outcome of Measure I. Management has not indicated plans if the ballot measure fails, and Fitch will reassess the rating and updated capital plans at that time.

RATING SENSITIVITIES
RESOLUTION OF LONG-TERM PROJECT FUNDING: The Rating Watch Positive reflects Fitch's expectation of upward rating movement if Measure I passes since funding will be secured to complete the new building project and Tulare Regional Medical Center's strong operating performance has been sustained. However, if Measure I fails, Fitch will need an updated plan from management and will reassess the rating at that time.

CREDIT PROFILE
Tulare Local Health Care District, d/b/a Tulare Regional Medical Center owns and operates a 112-bed hospital in the city of Tulare, CA. Total operating revenue in FYE June 30, 2016 (unaudited interim results) was $81 million (excluding tax revenues related to GO bonds debt service). Since January 2014, TRMC has been managed by HealthCare Conglomerate Associates (HCCA). The current management agreement runs until 2029 with possible extensions.

DISCLOSURE
TRMC covenants to disclose annual financial statements within six months of year-end and quarterly unaudited financial statements within 30 days through the MSRB EMMA website.

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VARIATION FROM PUBLISHED CRITERIA

The assignment of and analysis supporting the 'BB-' IDR includes a variation from Fitch's 'U.S. Nonprofit Hospitals and Health Systems Rating Criteria'. Enhanced analysis under the variation relates to the assessment of the benefits and risks of supplemental tax revenues available to the healthcare provider. This evaluation is supported by Fitch's new 'U.S. Tax-Supported Rating Criteria' dated April 21, 2016 that includes refinements to the analysis of both tax revenue volatility, through the new Fitch Analytical Sensitivity Tool (FAST), and the value of taxing capacity relative to the issuer's potential revenue stress in a downturn.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/site/re/750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/site/re/866807
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 October 2016

Update

Rate this Research

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Tulare Local Health Care District, CA

Rating Update - Moody's Affirms Baa3 GO Rating of Tulare Local Health Care District (CA), Outlook Revised to Stable

Summary Rating Rationale

Moody's Investors Service has affirmed the Baa3 on Tulare Local Health Care District's general obligation bonds and revised the outlook to stable from negative. Approximately $85 million of general obligation debt remains outstanding.

Affirmation of the Baa3 and removal of the negative outlook reflect continued tax base growth emerging from the recession with assessed valuation exceeding a pre recession peak for the first time in fiscal 2017; improved operating performance beginning in fiscal 2014, driven by a new management team; and identified funding opportunities to complete construction on a planned addition to the medical center following voter rejection of a proposed GO bond in August of this year.

The Baa3 rating is additionally bolstered by the strength of the voter-approved, unlimited property tax pledged and the well-established levy and collection history of the county for the debt service payments. Tulare county (Issuer Rating Aa2) rather than the health care district, levies, collects and disburses the district's property taxes. This arrangement further insulates the GO levy from the district's operations. As a purely legal matter, the GO levy can only be used for GO debt service.

Credit Strengths

- Continued tax base growth emerging from the recession, with assessed valuation exceeding a pre recession peak for the first time in 2017
- Ongoing population and work force growth despite relatively high unemployment levels
- Notably improved financial operations
- “Lock box” mechanism for collected GO debt service levy and a statutory property tax lien

Credit Challenges

- Voter rejection of proposed GO bond measure will require operating revenues to support an anticipated $55 million financing to complete medical center addition
- Service area's below average socioeconomic indices with high unemployment levels
- Challenging operating environment of medical care in general and of rural hospitals in particular

Rating Outlook

The revision of the outlook to stable from negative reflects renewed tax base growth, an improved trajectory of financial performance and identification of likely funding to proceed with planned additions to the medical center.

Factors that Could Lead to an Upgrade

- Finalization of financing for medical center addition with evidence that ongoing operations can comfortably support this obligation
- Continued strengthening in financial operations supported by ongoing improvement in utilization metrics
- Strengthened socio economic levels for service area

Factors that Could Lead to a Downgrade

- Deterioration of financial operations
- Default on the district's revenue bonds or declaration of bankruptcy or insolvency
- Inability to secure financing for medical center additions required for seismic compliance

Key Indicators

Exhibit 1

Tulare Local Health Care District	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 5,872,485	$ 5,715,765	$ 5,681,620	$ 5,768,906	$ 6,108,064
Full Value Per Capita	$58,725	$57,158	$56,816	$57,689	$61,081
Median Family Income (% of US; Avg. of Three Primary Cities)	--	--	--	--	77.5%
Finances					
Operating Revenue ($000)	88,116	76,069	76,441	68,877	80,417
Unrestricted Cash and Investments/Operating Revenues (%)	15.1%	17.5%	17.5%	19.4%	16.6%
Days' Cash	61.8	58.0	42.3	57.9	126.7
Debt/Pensions					
Net Direct GO Debt ($000)	$ 85,000	$ 85,000	$ 84,985	$ 84,955	$ 84,810
Net Direct GO Debt/Full Value (%)	1.4%	1.5%	1.5%	1.5%	1.4%

Source: Tulare Local Health Care District and Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Rural Local Economy with Renewed Tax Base Growth Exceeding Pre Recession Highs for the First Time in Fiscal 2017

Located in the City of Tulare (Issuer Rating A1), Tulare Health Care District (the “district”) serves an area of approximately 450 square miles with an approximate population of 100,000. The local economy is largely agricultural. While positively both total population and work force figures continue to expand, area wealth levels and unemployment levels compare unfavorably with national averages and continue to erode. The City of Tulare's median family income of $50,690, for example, equals 77.5% of the US median, and the city's unemployment rate of 9.5% as of July 2016 compares unfavorably with both state (5.9%) and national (5.1%) figures for the same time period.

Positively, the district's tax base, while suffering significant declines during the recession, has resumed growth, and in fiscal 2017, for the first time, total assessed valuation of $6.7 billion exceeded a pre recession high of the $6.6 billion attained in 2010. Over the past ten years, assessed valuation has increased an average of 3.55% annually, and incremental growth is likely to continue supported by

the strength of the county's agricultural sector. Assessed valuation per capita equals $67,038. In 2015, gross agricultural production for Tulare county totaled $6.9 billion, and while this represented a decline of 13% from 2014, largely due to changes in planted acreage, which were impacted by the drought and a decrease in milk prices, the county remains the leading region for milk production within the US and represents the second leading producer of agricultural commodities overall. The district's top ten taxpayers include a number of large producers of dairy products including Land o Lakes, Inc., Saputo Cheese, Oscar Mayer and Dreyers Grand Ice Cream, Inc., although none constitutes more than 3% of total AV, with the top ten in combination comprising 12.3% of total AV.

Financial Operations and Reserves: Continuation of Improved Financial Performance Critical to Supporting Planned Financing for Completion of Medical Center Addition

Beginning in fiscal 2014, a new management team affiliated with Healthcare Conglomerate Associates (HCCA) has generated significantly improved financial performance, growing revenues and reducing unnecessary costs. Operating revenues in fiscal 2015, for example, increased by close to 16.8%, resulting in a good 10.5% operating margin and marking the district's first positive operating margin since fiscal 2011. Previously, due largely to significant declines in patient volume and capital project costs, the district had three consecutive years of negative operating margins from fiscal 2012 through fiscal 2014. Unaudited fiscal 2016 results, while comparing unfavorably to budgeted revenue growth of 5%, continued a slightly upward trend, with operating margin remaining acceptable at 7.9%. Significantly, this improved performance will prove critical as the district moves forward with an anticipated financing of $55 million that will be supported by operating revenues and is discussed more fully in the debt section.

Concurrent with improvements in financial performance, the district's new management team has succeeded in improving utilization, with emergency room visits increasing from a low of 30,753 in fiscal 2013 to 32,605 in fiscal 2016. Similarly, outpatient surgeries grew from a low of 1,563 in fiscal 2013 to 1,787 for fiscal 2016, and management remains highly focused on recruiting new physicians and expanding procedures. Approval for a new catheter lab, for example, will allow two new cardiologists to perform procedures that previously had to be done elsewhere. The district is projecting 5% growth in service volume for fiscal 2017, driven in part by increased market penetration, and also remains highly focused on trimming costs wherever possible. In August, for example, the district completed a reduction in force that affected 29 employees, and a new purchasing platform, while reducing choice, is expected to generate approximately 15% in supply cost savings. The district has also actively pursed profitable opportunities in other areas, expanding a membership-based fitness center, for example, in which outpatient physical therapy is also provided. District management reports that annual check-ins at the fitness center now total 330,000.

Of concern, the service area's aging demographics and limited employment opportunities have resulted in a high percentage of government payment reimbursements, with Medicare (32%) and Medi-Cal (45%) accounting for over three-quarters of patient service revenue. The expansion of Medi-Cal, however, has reduced the number of self-pay patients from a high of 12% in fiscal 2013 to 6% currently. While constrained by the realities of its rural service area, we expect that the management team's initiatives in service expansion and keen focus on costs should serve to sustain the district's improved financial trajectory.

LIQUIDITY

Concurrent with improvements in operating results, the district's liquidity position improved significantly in fiscal 2015, ending the year with 126.7 days cash on hand; a notable improvement from a low of 42 days in fiscal 2013. While unaudited results for fiscal 2016 reflect a decline in liquidity to 61 days, this decrease resulted from three factors that are not expected to continue: (1) timing delays for the receipt of supplemental state funding for public hospitals that will now remain ongoing; (2) cash expenses associated with maintenance of state permits associated with the hospital tower that will be eliminated in the future through debt financing and completion of the construction project, and (3) a new Electronic Medical Record (EMR) system for which the district negotiated a $5 million payment over an 18 month period that will not continue. Going forward, the district estimates that its ongoing IT costs will equal approximately $3 million annually. In fiscal 2017, days cash is projected to increase to closer to 100 days; a targeted level on the part of management. This strengthening will be supported by execution of a financing, as anticipated, to support the medical center's planned expansion and opening of a new tower.

Debt and Pensions: Financing for Completion of Medical Tower Required for Seismic Compliance will be Supported by Operating Revenues following Voter Rejection of GO Bond

The district currently has approximately $85 million in outstanding general obligation debt nearly all of which was issued to finance expansion of the medical center through the construction of a new medical tower. This construction was required to ensure that

the hospital is compliant with seismic requirements by 2030. Significantly, however, the initial authorization proved insufficient to complete construction of the tower, and in August of this year, voters rejected a proposed $55 million GO bond to finish construction. As a result, the tower remains unopened.

Positively, the district is exploring two financing alternatives to finance the final phase of construction: the first through a OSHPD Cal-Mortgage and the second through Love Funding, available through HUD's FHA Section 242 program. While both alternatives would offer attractive rates of financing, they will need to be paid from hospital operating revenues, a factor that will drive the urgency of maintaining sound financial operations and is also likely to weaken debt to cash flow and debt ratio metrics. Partially offsetting these challenges, management reports that the opening of the new tower, expected to occur in 2018, will facilitate increased patient volume and will allow the district to offer first Level 3 and then progressively higher levels of trauma services, which are currently unavailable at the hospital.

Most recently, officials report that Cal-Mortgage appears to be the more promising alternative since the program has previously assisted other hospital districts, and the agency is already in the process of reviewing the district's financials and conducting a site visit, with the district targeting a closing date in February. Despite this positive development, in August, a Tulare Grand Jury report faulted the district for underestimating tower construction costs and for mismanagement of its initial $85 million in bond proceeds. The new management team's ability to complete the medical tower within budget remains a future risk.

The district's direct general obligation equals a moderate 1.4% of AV; a figure that will decline over time given expectations for future tax base growth and taxpayers' demonstrated unwillingness to support additional debt. The majority of the district's outstanding debt ($85 million) consists of general obligation bonds that are secured by ad valorem revenues, which are levied, held and disbursed by the county, making this debt burden very manageable. The district's outstanding obligations also include $14 million in revenue bonds and $5 million in capital leases, neither of which are rated by Moody's. The total debt payout is below average with approximately 21% of principal repaid in 10 years, but is commensurate with the scope of the financed new construction. Currently, debt service payments on non GO debt account for 3.5% of annual revenues, although this figure will increase with the anticipated financing. Previously, the district violated its revenue bond rate covenant in fiscal 2012 when coverage dropped, however debt service coverage of revenue bonds equaled a favorable 5.44x in fiscal 2015.

DEBT STRUCTURE

All of the district's outstanding obligations are fixed rate with generally level amortization through final maturing in 2040.

DEBT-RELATED DERIVATIVES

The hospital district has no exposure to debt-related derivatives.

PENSIONS AND OPEB

While the district no longer has any employees, contracting out for services, previous employees benefit from a defined contribution plan that does not entail any pension burden. Similarly, the district no longer has any obligation to fund post retirement health care benefits.

Management and Governance

The district's new financial management team has succeeded in reversing the district's past trend of weak operating performance, with the district's liquidity and operating margins demonstrating notable improvement. We believe that the current management team will remain in place over the intermediate term, maintaining a trend of stable financial operations.

California hospital/healthcare districts have an institutional framework score of “Baa”. As competitive enterprises, pricing power is very limited, and these districts are subject to the same tax and fee limitations as other local governments in the state. These limitations most significantly include Props. 13 and 218. Often relatively small operations, district revenues can be volatile and depend on patient volumes and payer mix. Expenditure flexibility is moderate, since few services are explicitly mandated by law. However, health care services are inherently difficult to cut, particularly for the under-insured populations typically served by hospital/healthcare special districts.

Legal Security

The bonds are secured by the district's voter-approved, unlimited, ad valorem property tax pledge. Tulare county (Issuer Rating Aa2) rather than the health care district, levies, collects and disburses the district's property taxes. This arrangement further insulates the GO levy from the district's operations. As a purely legal matter, the GO levy can only be used for GO debt service.

Use of Proceeds

N/A

Obligor Profile

Located on the west side of Tulare County (Issuer Rating Aa2) in the City of Tulare (Issuer Rating A1), the district serves an area of approximately 450 square miles with an approximate population of 100,000. The hospital has several competitors within 30 miles, although none exist within the district's boundaries or its primary service area.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

October 26, 2016

Moody's updates Tulare's Hospital's outlook to 'Stable'

Moody's Investor Service has released a rating update for the Tulare Local Health Care District which revises the outlook from negative to stable and affirms the Baa3 rating of the district's general obligation bonds.

Moody's Investor Service, one of the world's three major credit rating agencies, stated the ratings affirmation is indicative of the district's improved trajectory of financial performance which began in 2014. Since January 2014 Healthcare Conglomerate Associates (HCCA) has managed operations, leading to the district's achievement of now 30 consecutive months of profitability and higher returns than in the past twelve years.

Moody's statement that the "continuation of improved financial performance is critical to supporting planned financing for completion of the medical center addition" underscores the extraordinary value of HCCA's operational and financial expertise to the district and its future.

Moody's ratings update comes just two months after FITCH Ratings updated Tulare Local Health Care District revenue bonds Rating Watch to Positive. Since HCCA has come on board in January 2014, Fitch Ratings Rating Watch for TRMC has gone from "negative" to "stable" and now to "positive."

"The hospital's dramatic turnaround has now for the fourth time been validated by a national rating service", states Dr. Benny Benzeevi, Chair of HCCA. "~~The~~ This transformation is unprecedented and a testament to the hard work and dedication of our employees and the effectiveness that stability and professional management have brought to the Tulare Healthcare District". HCCA/Tulare Regional Medical Center will continue on its path of financial improvement while keeping its word to our community that we will complete the hospital tower.

The hospital tower will be a state-of-the-art facility which will house expanded services as part of an integrated health care delivery system.

About HCCA
Healthcare Conglomerate Associates specializes in building integrated health-care delivery systems by partnering with hospitals, health-care systems and health-care districts in a unique and proven private-public business model. Through direct purchase, capital infusion or creative mutually-beneficial collaborations, HCCA provides stability and a proven plan for profitability as well as the professional medical expertise for operating the integrated system.

HCCA manages and operates Tulare Regional Medical Center, a 112-bed general acute-care facility in Tulare, and Southern Inyo Hospital in Lone Pine.

FitchRatings

FITCH REVISES TULARE LOCAL HEALTH CARE DISTRICT'S (CA) WATCH TO NEGATIVE FROM POSITIVE

Fitch Ratings-San Francisco-22 February 2017: Fitch Ratings has revised the Rating Watch to Negative from Positive on the 'BB-' rating on $13,650,000 series 2007 fixed-rate bonds issued by the Tulare Local Health Care District d/b/a Tulare Regional Medical Center (TRMC) and on TRMC's Issuer Default Rating (IDR) of 'BB-'.

SECURITY
Debt payments are secured by a pledge of the gross revenues of Tulare Local Health Care District. A fully funded debt service reserve fund provides additional security for bondholders.

KEY RATING DRIVERS

FUNDING FOR TOWER COMPLETION: The Negative Watch is due to the failure of a ballot measure in August 2016 that would have authorized a $55 million general obligation (GO) bond issuance to finish its new building project. TRMC is currently in the process of evaluating financing options and the Negative Watch reflects the sizeable amount of debt that will need to be supported from hospital operations.

FINANCIAL TURNAROUND: The current management team has been in place since January 2014 and led a financial turnaround with strong operating results in fiscal 2015 and 2016 (June 30 year-end) with 16.6% and 14.1% operating EBITDA margins, respectively. TRMC's financial profile has weakened through the six months ended Dec. 31, 2016 as a result of an information technology conversion and continued decline in volume. TRMC had 41.2 days cash on hand at Dec. 31, 2016 and 6.3% operating EBITDA margin through the interim period.

NEW BUILDING PROJECT: TRMC has been hindered by an unfinished construction project that was supposed to be complete in 2012, due to numerous construction issues and litigation with the contractor. After settling with the contractor, TRMC has spent its own funds to prepare the building for completion. The completion of the tower project will be key to stemming outmigration and enhancing services.

RATING SENSITIVITIES
UPCOMING FINANCING EXPECTED: Management expects to finalize its financing plan by summer 2017 and will issue bonds through the FHA 242 program or Cal Mortgage. The Negative Watch reflects Fitch's concern about the magnitude of the debt on Tulare Regional Medical Center's financial profile and will assess the impact on the rating at the time of the financing.

CREDIT PROFILE
Tulare Local Health Care District, d/b/a Tulare Regional Medical Center owns and operates a 112-bed hospital in the city of Tulare, CA. Total operating revenue in FYE June 30, 2016 (unaudited interim results) was $81 million (excluding tax revenues related to GO bonds debt service). Since January 2014, TRMC has been managed by HealthCare Conglomerate Associates. The current management agreement runs until 2029 with possible extensions.

VARIATION FROM PUBLISHED CRITERIA

The analysis supporting the 'BB-' IDR includes a variation from the U.S. Nonprofit Hospitals and Health Systems Rating Criteria. Enhanced analysis under the variation relates to the assessment

of the benefits and risks of supplemental tax revenues available to the healthcare provider. This evaluation is supported by Fitch's new U.S. Tax-Supported Rating Criteria dated April 21, 2016, that includes refinements to the analysis of both tax revenue volatility, through the new Fitch Analytical Sensitivity Tool (FAST), and the value of taxing capacity relative to the issuer's potential revenue stress in a downturn.

DISCLOSURE
TRMC covenants to disclose annual financial statements within four months of fiscal year-end and quarterly unaudited financial statements within 60 days of quarter-end through the MSRB EMMA website. TRMC's fiscal year ended June 30, 2016 audit is still not available due to a change in auditors. Management expects the audit to be available shortly.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/site/re/750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/site/re/866807
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478

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FitchRatings

Fitch Downgrades Tulare Local Health Care District (CA) Revs to 'CC'; Maintains Negative Watch

Fitch Ratings-Austin-06 September 2017: Fitch Ratings has downgraded to 'CC' from 'B' $13,650,000 of series 2007 fixed-rate bonds issued by the Tulare Local Health Care District, CA d/b/a Tulare Regional Medical Center (TRMC). Fitch has also downgraded TRMC's Issuer Default Rating (IDR) to 'CC' from 'B', indicating probable default risk. Fitch maintains the bonds and the IDR on Rating Watch Negative.

KEY RATING DRIVERS

DOWNGRADE ON INABILITY TO RESTORE LIQUIDITY: Fitch's Aug. 9, 2017 release noted that TRMC's current rating hinged on its ability to restore liquidity by the end of August 2017. The downgrade to 'CC' represents very high levels of credit risk, reflecting TRMC's continued delays in executing external liquidity agreements to bolster working capital and heightened political instability at the TRMC board level.

NEGATIVE WATCH REFLECTS FRACTURED GOVERNANCE: Maintenance of the Rating Watch Negative reflects Fitch's concern over the breakdown of communication between the TRMC board and hospital management that places risk on hospital operations and execution of credit agreements.

RATING SENSITIVITIES

LIQUIDITY IMPROVEMENTS: The current rating assumes near term improvement in TRMC's cash position. An inability to restore liquidity by the end of September 2017 will result in further negative rating action.

FUNCTIONAL GOVERNANCE: Resolution of the Rating Watch Negative requires clarity over the legality of TRMC board and hospital administration

actions and development of a working relationship between the TRMC board and hospital administration to support TRMC operations, reporting and financing activities.

SUFFICIENT INFORMATION: Fitch is concerned about receipt of timely and reliable information. Maintenance of the Fitch rating is dependent on management's ability to provide timely and reliable information.

For more information on TRMC, see Fitch's release 'Fitch Downgrades Tulare Local Health Care District (CA) Rev Bonds to 'B'; Maintains Negative Watch' dated Aug. 9, 2017 and available at 'www.fitchratings.com'.

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Applicable Criteria
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017) (https://www.fitchratings.com/site/re/898969)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015) (https://www.fitchratings.com/site/re/866807)
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 September 2017

Update

Rate this Research

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Tulare Local Health Care District, CA

Rating Update - Moody's Downgrades GO Rating of Tulare Local Health Care District (CA) to Ba2; Outlook Negative

Summary Rating Rationale

Moody's Investors Service has downgraded to Ba2 from Baa3 the rating on Tulare Local Health Care District's general obligation bonds and revised the outlook to negative. Approximately $84.1 million of Series 2005A and 2005B general obligation debt remains outstanding.

The downgrade to Ba2 and negative outlook reflect the district's deteriorating financial and operational performance, non existent cash liquidity, failure to secure financing to complete construction of a planned medical tower, dysfunctional board relations and poor reporting and oversight practices. The district's continued tax base growth, supported by favorable performance of the area's largely agricultural economy, serves to partially mitigate these concerns. Beginning in January 2014, medical center operations were outsourced under a Management Services Agreement to HealthCare Conglomerate Associates, LLC (HCCA). While the new management team initially improved operating performance in fiscal 2014 and 2015, they have failed to secure financing to complete construction on a new medical tower following voters' failure in August 2016 to approve general obligation funding for the remainder of the project. As a result, the district has experienced two years' of year-over-year declines in revenues and patient volumes, eroding financial performance and liquidity.

The Ba2 rating is bolstered by the strength of a voter-approved, unlimited property tax pledge and the well-established levy and collection history of the county for the debt service payments. Tulare county (Issuer Rating Aa2) rather than the health care district, levies, collects and disburses the district's property taxes. This arrangement further insulates the GO levy from the district's operations. As a purely legal matter, the GO levy can only be used for GO debt service.

Credit Strengths

» Continued tax base growth supported by the region's strong agricultural economy

» Ongoing population and work force expansion despite relatively high unemployment levels

» “Lock box” mechanism for collected GO debt service levy and a statutory property tax lien

Credit Challenges

» Essentially non existent cash liquidity with $8 million loan due to HCCA

» Failure to secure required $55 million in financing for completion of medical tower following voter rejection of proposed GO bond measure

» Dysfunctional board relations with poor reporting and oversight

» Service area's below average socioeconomic indices with high unemployment levels

Rating Outlook

The negative outlook reflects the considerable challenges facing the district with two consecutive years of operating income and patient utilization declines and an eroded cash position. The district's failure to secure financing for completion of a new medical tower increases the likelihood of continued deterioration in these metrics. Dysfunctional board relations, combined with weak reporting and oversight practices, could prevent effective decision making, increasing the likelihood of further credit deterioration.

Factors that Could Lead to an Upgrade

» Finalization of financing for new medical tower with evidence that ongoing operations can comfortably support this obligation

» Full repayment of $8 million loan from HCCA with restoration of satisfactory liquidity

» Replacement of vacated board seat members, restoration of regular meetings, and adopted oversight, financial and debt policies

Factors that Could Lead to a Downgrade

» Continued nonpayment of management fees

» Further deterioration of financial operations and patient utilization

» Default on the district's revenue bonds or declaration of bankruptcy or insolvency

» Inability to secure financing for medical center additions required for seismic compliance

» Failure of full board membership to resume regular, effective board meetings

Key Indicators

Exhibit 1

Tulare Local Health Care District	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 5,768,188	$ 5,707,283	$ 5,819,513	$ 6,156,627	$ 6,413,514
Full Value Per Capita	$58,725	$57,158	$56,816	$57,689	$61,081
Median Family Income (% of US; City of Tulare)	--	--	--	--	77.2%
Finances					
Operating Revenue ($000)	76,069	76,441	68,877	80,417	81,339
Unrestricted Cash and Investments/Operating Revenues (%)	17.5%	17.5%	19.4%	16.6%	14.0%
Days' Cash	58.0	42.3	57.9	126.7	55.5
Debt/Pensions					
Net Direct GO Debt ($000)	$ 85,000	$ 84,985	$ 84,955	$ 84,810	$ 84,110
Net Direct GO Debt/Full Value (%)	1.5%	1.5%	1.5%	1.4%	1.3%

Source: Tulare Local Health Care District and Moody's Investors Service

Recent Developments

In July 2017, district voters removed the district board director through a recall election. Since that time, the board's full membership has not met, and the elected replacement has not been seated. The subsequent resignation of the board chairwoman has created an additional vacancy on the board. The district's management payments are now two months in arrears, with late payments accruing with interest charges, and the district has an additional $8 million outstanding loan from HCCA to fund operations. The district also faces outstanding litigation for nonpayment of other obligations and violations of the Public Records Act. Most recently, the Tulare County District Attorney's Office filed a request for a court order declaring the elected representative a seated board member and halting HCCA's financial administration of the district. This request was denied, increasing uncertainty regarding future board operations.

Detailed Rating Considerations

Economy and Tax Base: Rural Local Economy with Continued Tax Base and Employment Growth although Socio Economic Levels Remain Low

Located in the City of Tulare (Issuer Rating A1), Tulare Health Care District (the “district”) serves a roughly 450 square mile area with an approximate population of 100,000. The local economy is largely agricultural. Positively, the district's $6.7 billion tax base, while suffering significant declines during the recession, continues to grow and now exceeds a pre-recession high of the $6.6 billion attained in 2010. Over the past decade, assessed valuation has increased an average of 3.55% annually, and incremental growth is likely to continue supported by the strength of the county's agricultural sector. Assessed valuation per capita equals $67,037.

Both total population and work force figures continue to expand, although area wealth and unemployment levels compare unfavorably with national averages. The City of Tulare's median family income of $50,966, for example, equals 77.2% of the US median, and the city's unemployment rate of 9.1% as of July 2017, while improved slightly from the prior year, remains unfavorable in comparison with both state (5.4%) and national (4.6%) figures for the same time period. The area's low socio economic profile contributes to the district's high concentration of revenues derived from Medi-Cal and other government sources.

While agricultural production dipped during the drought, the county remains the leading region for milk production within the US and represents the second leading producer of agricultural commodities overall. The district's top ten taxpayers include a number of large producers of dairy products including Land o Lakes, Inc., Saputo Cheese, Oscar Mayer and Dreyers Grand Ice Cream, Inc., although none constitutes more than 3% of total AV, with the top ten in combination comprising 12.3% of total AV.

Financial Operations and Reserves: Two Consecutive Declines in Annual Operating Income and Patient Utilization Figures Have Eroded the District's Finances and Decimated Liquidity

While operating performance initially improved under a 2014 Management Services Agreement with HealthCare Conglomerate Associates (HCCA), a failure to secure financing to complete construction on a new medical tower has contributed to more recent deterioration in financial results and utilization metrics that is likely to persist over at least the medium term. Operating revenues in fiscal 2015, for example, increased by close to 16.8%, resulting in a good 10.5% operating margin and marking the district's first positive operating margin since fiscal 2011.

In contrast, audited results for fiscal 2016 reflect operating revenue growth of just over 1%. Marginal revenue growth coupled with rising expenditures, many associated with capital costs of the district's existing facility coupled with the unfinished medical tower, reduced the district's operating margin to 3.3%, with corresponding declines in liquidity and revenue debt service coverage metrics. Of concern, preliminary unaudited figures for fiscal 2017 reflect continued deterioration, with operating revenues actually declining from $80.2 million in fiscal 2016 to $78.6 million. Moving forward, weaker financial performance may jeopardize the district's ability to secure and ultimately support an estimated $55 million in additional financing required to complete the new patient tower (discussed more fully in the debt section).

The district has historically struggled with nearby competition and declining patient volume. In this area as well, earlier improvements have now dissipated. Emergency room visits, for example, increased from a low of 30,753 in fiscal 2013, to 32,605 in fiscal 2016, but fell to 31,407 in fiscal 2017, due largely to reported competition from emergent care facilities as well as from Kaweah Delta Medical Center (A3 stable revenue bond rating). Similarly, total surgeries improved from a low of 1,563 in fiscal 2013 to 2,459 for fiscal 2016, but fell drastically to 1,671 in fiscal 2017 as both patients and physicians are electing to complete surgical procedures elsewhere.

Newborn deliveries fell from 750 in fiscal 2016 to 528 in fiscal 2017. District staff reports that in fiscal 2018, deliveries are holding steady but both surgeries and ER volumes are down. Fiscal 2017 utilization metrics represent both declines from the prior year as well as negative variances from budgeted expectation, and we expect that fiscal 2018 results will similarly underperform budgeted expectations.

Of additional concern, the service area's aging demographics and limited employment opportunities have resulted in a high percentage of government payment reimbursements, with Medicare (38%) and Medi-Cal (41%) accounting for close to 80% of patient service revenue. Although the expansion of Medi-Cal has reduced the number of self-pay patients from a high of 12% in fiscal 2013 to 6% currently, potential changes at the federal level represent another threat to the district's financial solvency.

Management remains focused on securing required capital financing, restraining operating costs and positioning the district to offer expended services. Burdened, however, with the carrying costs of a 65-year-old building and an unfinished medical tower, declining patient volumes and negligible liquidity, we expect that financial performance will further deteriorate in fiscal 2018.

LIQUIDITY

Concurrent with weakening operating results, liquidity has deteriorated significantly from a high point of 126.7 days cash at the end of fiscal 2015. In fiscal 2016, days' cash on hand fell by more than half to 55.5 days, below an earlier unaudited figure of 61 days. While staff had previously projected an improvement in cash to over 100 days by the end of fiscal 2017, unaudited results instead reflect continued deterioration, with the district's cash dropping from $11.4 million at the end of fiscal 2016 to just over $2 million or less than 10 day's cash.

Currently, the district has effectively no cash liquidity, with an outstanding loan of $8 million due to HCCA. Notably, under the Management Agreement, to the extent that HCCA advances any funds to the district, this advance provides HCCA with a lien on all of the district's assets, and HCCA has the right to file a financing statement without the signature of the district. Moreover, the district is responsible for any legal or collection fees associated with nonpayment of invoices in a timely manner. Previously, the district's lowest cash position equaled 42 days in fiscal 2013.

While staff reports that the current cash deficiency in part reflects one-time costs and implementation challenges associated with a new Electronic Medical Record (EMR) system, the district's negative cash position is perilous, and one that we do not expect to improve over the medium term, again jeopardizing operating sustainability and solvency. Furthermore, the lack of full meetings of the board further impedes any effective financial reporting, long-term planning and the likelihood of financial recovery.

Debt and Pensions: District has Failed to Secure Financing for Tower Completion Following Voter Rejection of GO Bond

The district currently has approximately $84.1 million in outstanding general obligation debt, nearly all of which was issued to finance expansion of the medical center through the construction of a new medical tower. This construction was required to ensure that the hospital is compliant with seismic requirements by 2030. Significantly, however, the initial authorization proved insufficient to complete construction of the tower, and in August of 2016, voters rejected a proposed $55 million GO bond to finish construction. Also in August, a Tulare Grand Jury report faulted the district for underestimating tower construction costs and for mismanagement of its initial $85 million in bond proceeds. As a result, the tower remains unopened.

The district has attempted to secure financing to complete the tower's construction, but these efforts have thus far been unsuccessful. Previously, the district had hoped to obtain financing from the state of California through Cal-Mortgage. Currently, district officials report exploring financing available through HUD's FHA Section 242 program as well as discussions with a Real Estate Investment Trust (REIT) fund for a $100 million short-term bridge loan. Financing from a private lender would in all likelihood involve a refunding of the district's Series 2007 revenue bonds, which are callable in November of this year, so that the new lender would have a parity claim on hospital revenues as current bondholders. Notably, if the district's revenue bonds are repaid, various provisions of agreements with HCCA come into play, allowing HCCA to purchase or lease the hospital, subject to voter approval, and allowing the district and HCCA to enter into a joint operating agreement with HCCA.

Management had hoped to open the new tower in 2018 to facilitate increased patient volume and allow the district to offer first Level 3 and then progressively higher levels of trauma services, which are currently unavailable at the hospital. Because of the district's precarious finances and board turmoil, the likelihood of securing financing appears increasingly doubtful.

The district's direct general obligation equals a moderate 1.3% of AV; a figure that will decline over time given expectations for future tax base growth and taxpayers' demonstrated unwillingness to support additional debt. The majority of the district's outstanding debt ($84.1 million) consists of general obligation bonds that are secured by ad valorem revenues, which are levied, held and disbursed by the county, effectively segregating these financial commitments from the overall operational weakness of the district and enhancing their security. The district's outstanding obligations also include $13.6 million in revenue bonds and $1.65 million in capital leases, neither of which are rated by Moody's.

Increasing the district's future risks, total debt amortization is slow with approximately 20.4% of principal repaid in 10 years. While this payout is commensurate with the scope of the financed new construction, it limits the district's future flexibility to secure and readily afford additional financing. Currently, debt service payments on non GO debt account for 4.0% of annual revenues, although this figure will increase with any future financing. Previously, the district violated its revenue bond rate covenant in fiscal 2012, when coverage dropped, however debt service coverage of revenue bonds equaled a 2.6x in fiscal 2016, and district officials report no violations in fiscal 2017 or anticipated violations in fiscal 2018.

DEBT STRUCTURE

All of the district's outstanding obligations are fixed rate with generally level amortization through final maturing in 2040.

DEBT-RELATED DERIVATIVES

The hospital district has no exposure to debt-related derivatives.

PENSIONS AND OPEB

While the district no longer has any employees, contracting out for services, previous employees benefit from a defined contribution plan that does not entail any pension burden. Similarly, the district no longer has any obligation to fund post retirement health care benefits.

Management and Governance: Two Open Seats, the Board's Failure to Meet since a Recall Election, Political Turmoil and Weak Oversight Exacerbate Uncertainty

Characterized by weak oversight and control, recent board governance has been marked by a descent into disarray. In July, district voters removed the board's director and elected a new representative to the board. The following month, the board president resigned hours before a regularly scheduled meeting, and when a second board member failed to appear, the five-member board lacked a quorum to meet. The board currently has two open seats and has failed to meet since the July election, heightening the uncertainty surrounding any capacity for sound decision making as well as the future viability of district operations. As noted previously, the county District Attorney filed a motion, which was denied, to declare the elected board member seated and halt HCCA's financial administration of the district.

Board oversight and reporting requirements remain poor. In 2014, the district entered into Management Services and Option Agreements with HCCA for an initial period of fifteen years. The management agreement specifies that ultimate control is vested with the board and that the district is obligated to ensure that its funds are used to support the hospital and district operations and not diverted to other uses. However the lack of regular reporting requirements on the part of HCCA, rigorous board oversight and board adopted financial and debt policies have contributed to weak internal controls and questionable practices. At HCCA's request, for example, financial reporting to the board was reduced from a monthly to a quarterly requirement in 2016. It is unclear what recent financial information has been provided to the board, nor does this information appear to be available publically, as required, on EMMA.

As one example of the board's weak oversight, in March 2016, HCCA, without notifying the board, extended a $250,000 line of credit at 3.5% from the district's available liquidity to Southern Inyo Healthcare District (SIHD), an unrelated district also managed by HCCA that had declared bankruptcy in January 2016. This line of credit was subsequently increased to $500,000, and the repayment deadline extended from June 30th to September 30th. When SIHD failed to repay the loan on its September due date, the board was not notified nor did the loan documents provide for a default interest rate. Fortunately, the loan was repaid to the district by the end of 2016.

The management agreement provides HCCA with full control over the district's bank accounts. However, given Tulare's perilously thin liquidity, the extension of a loan, without board approval, from the district's available cash to a speculative grade borrower is questionable. Although it is not uncommon for hospital systems to allocate resources among facilities, the district and Southern Inyo

are not related entities. Moreover, any unpaid obligations to the manager provide HCCA with a priority lien on all of the district's assets and will be deducted from HCCA's purchase option price under its Option Agreement with the district. Had Southern Inyo failed to repay the loan, this would have resulted in an additional shortfall of $500,000 in the district's cash position and increased its outstanding liabilities to HCCA.

California hospital/healthcare districts have an institutional framework score of "A". Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. As competitive enterprises, pricing power is limited, and these districts are subject to the same tax and fee limitations as other local governments in the state. These limitations most significantly include Props. 13 and 218. Often relatively small operations, district revenues can be volatile and depend on patient volumes and payer mix. Expenditure flexibility is moderate, since few services are explicitly mandated by law. However, health care services are inherently difficult to cut, particularly for the under-insured populations typically served by hospital/healthcare special districts.

Legal Security

The bonds are secured by the district's voter-approved, unlimited, ad valorem property tax pledge. Significant to the GO bonds' security, Tulare county (Issuer Rating Aa2) rather than the health care district, levies, collects and disburses the district's property taxes. This arrangement further insulates the GO levy from the district's operations. As a purely legal matter, the GO levy can only be used for GO debt service.

Use of Proceeds

N/A

Obligor Profile

Located on the west side of Tulare County (Issuer Rating Aa2) in the City of Tulare (Issuer Rating A1), the district serves a roughly 450 square mile area with an approximate population of 100,000. The hospital has several competitors within 30 miles, although none exist within the district's boundaries or its primary service area.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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